

# HSBC China Manufacturing PMI™

## Operating conditions improve at the strongest rate in seven months

### Summary

After adjusting for seasonal factors, including the recent Golden Week holiday, the HSBC *Purchasing Managers' Index™ (PMI™)* – a composite indicator designed to provide a single-figure snapshot of operating conditions in the manufacturing economy – posted at 50.9 in October, unchanged from the earlier flash reading, and up from 50.2 in September. Though only slight, it was the strongest improvement of operating conditions in China's manufacturing sector in seven months.

Output at manufacturing plants in China increased for the third month running in October, and at the quickest pace since April. The expansion of output was accommodated by stronger client demand both at home and abroad, with new orders and new export orders rising at faster rates in October. Furthermore, it was the strongest expansion of new business from abroad in nearly a year, with a number of panellists citing greater demand in the US in particular.

The level of outstanding business at Chinese manufacturers increased solidly in October, and was generally associated with new order growth. Moreover, it was the strongest accumulation of work-in-hand in 31 months. October data signalled a renewed expansion of payroll numbers, as some firms planned to expand output. However, the rate of job creation was only slight.

Increased production requirements led to higher levels of purchasing activity. Furthermore, the rate of increase accelerated since September to a solid pace, with 17% of surveyed firms noting more input buying. Concurrently, stocks of purchases rose for the first time since January, albeit marginally.

Stronger demand for inputs led to a deterioration of vendor performance for the second successive month in October. That said, the rate at which delivery times lengthened was only slight.

Average production costs faced by Chinese manufacturers increased for the third month in a row during October. However, the rate of input price inflation eased slightly since the previous month. A number of survey respondents attributed inflation to higher raw material costs. Meanwhile, output charges were raised for the third successive month, though the rate of increase eased to a marginal pace.

Finally, stocks of finished goods increased for the first time in four months, albeit slightly.

### Comment

Commenting on the China Manufacturing PMI™ survey, Hongbin Qu, Chief Economist, China & Co-Head of Asian Economic Research at HSBC said:

*"The final HSBC China Manufacturing PMI rose to a seven-month high in October, with the stronger momentum of manufacturing growth translating into the first expansion of employment since March. This in turn should support private consumption growth in the coming months. China is on track for a gradual growth recovery."*

### Key points

- Output growth picks up to six-month high
- Both new orders and new export orders increase at faster rates
- Fastest accumulation of work-in-hand since March 2011

### Historical Overview



Sources: Markit, HSBC.

**The November HSBC Flash China Manufacturing PMI is due for release 21<sup>st</sup> November 2013.**

For all forthcoming PMI release dates please see <http://www.markiteconomics.com/Survey/Page.mvc/DiaryofReleaseDates>

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### Notes to Editors:

The HSBC China Report on Manufacturing is based on data compiled from monthly replies to questionnaires sent to purchasing executives in over 420 manufacturing companies. The panel is stratified geographically and by Standard Industrial Classification (SIC) group, based on industry contribution to Chinese GDP. Survey responses reflect the change, if any, in the current month compared to the previous month based on data collected mid-month. For each of the indicators the 'Report' shows the percentage reporting each response, the net difference between the number of higher/better responses and lower/worse responses, and the 'diffusion' index. This index is the sum of the positive responses plus a half of those responding 'the same'.

The *Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>™</sup>) is a composite index based on five of the individual indexes with the following weights: New Orders - 0.3, Output - 0.25, Employment - 0.2, Suppliers' Delivery Times - 0.15, Stock of Items Purchased - 0.1, with the Delivery Times index inverted so that it moves in a comparable direction.

Diffusion indexes have the properties of leading indicators and are convenient summary measures showing the prevailing direction of change. An index reading above 50 indicates an overall increase in that variable, below 50 an overall decrease.

Markit do not revise underlying survey data after first publication, but seasonal adjustment factors may be revised from time to time as appropriate which will affect the seasonally adjusted data series. Historical data relating to the underlying (unadjusted) numbers, first published seasonally adjusted series and subsequently revised data are available to subscribers from Markit. Please contact [economics@markit.com](mailto:economics@markit.com).

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*Purchasing Managers' Index*<sup>™</sup> (*PMI*<sup>™</sup>) surveys are now available for 32 countries and also for key regions including the Eurozone. They are the most closely-watched business surveys in the world, favoured by central banks, financial markets and business decision makers for their ability to provide up-to-date, accurate and often unique monthly indicators of economic trends. To learn more go to [www.markit.com/economics](http://www.markit.com/economics)

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